

**GRAND RAPIDS CHILD DISCOVERY CENTER**

**FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION**  
June 30, 2008 and 2007



**REHMANN ROBSON**

---

*Certified Public Accountants*

GRAND RAPIDS CHILD DISCOVERY CENTER  
Grand Rapids, Michigan

FINANCIAL REPORT WITH SUPPLEMENTAL INFORMATION  
June 30, 2008 and 2007

CONTENTS

INDEPENDENT AUDITORS' REPORT .....	1	
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3	
BASIC FINANCIAL STATEMENTS:		
CENTER-WIDE FINANCIAL STATEMENTS		
STATEMENT OF NET ASSETS .....	12	
STATEMENT OF ACTIVITIES - Year Ended June 30, 2008.....	13	
STATEMENT OF ACTIVITIES - Year Ended June 30, 2007.....	14	
FUND FINANCIAL STATEMENTS:		
GOVERNMENT FUNDS:		
BALANCE SHEET - June 30, 2008.....	15	
BALANCE SHEET - June 30, 2007.....	16	
RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF NET ASSETS.....	17	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - Year Ended June 30, 2008 .....	18	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - Year Ended June 30, 2007.....	19	
RECONCILIATION OF THE STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES .....	20	
BUDGETARY COMPARISON STATEMENT - GENERAL FUND - Year Ended June 30, 2008 .....	21	
BUDGETARY COMPARISON STATEMENT - GENERAL FUND - Year Ended June 30, 2007 .....	22	
NOTES TO FINANCIAL STATEMENTS .....	23	
SUPPLEMENTAL INFORMATION:		
NONMAJOR GOVERNMENTAL FUNDS:		
COMBINING BALANCE SHEET - June 30, 2008 and 2007 .....	34	
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - Year Ended June 30, 2008 .....	35	
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - Year Ended June 30, 2007 .....	36	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....		37



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

## INDEPENDENT AUDITORS' REPORT

October 28, 2008

To the Board of Directors  
Grand Rapids Child Discovery Center  
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Grand Rapids Child Discovery Center* (the "Center"), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Centers' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Grand Rapids Child Discovery Center as of June 30, 2008 and 2007, and the respective changes in financial position and budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008 on our consideration of the Grand Rapids Child Discovery Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters for the year ended June 30, 2008. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large, prominent 'L' and 'J'.

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

This section of the annual financial report presents our discussion and analysis of the Grand Rapids Child Discovery Center's (the "Center") financial performance during the years ended June 30, 2008 and 2007. Please read it in conjunction with the Center's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center financially as a whole. The Center-wide financial statements provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Center's operations in more detail than the Center-wide financial statements by providing information about the Center's most significant funds - the General Fund, with all other funds presented in one column as nonmajor funds. The following summarizes the presentation included in this annual report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic financial statements

- Center-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Supplemental Information

***Reporting the Center as a Whole - Center-wide Financial Statements***

One of the most important questions asked about the Center is, "As a whole, what is the Center's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Center's financial statements, report information on the Center as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

These two statements report the Center's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as a way to measure the Center's financial health or financial position. Over time, increases or decreases in the Center's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Center's operating results. However, the Center's goal is to provide quality services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Center.

The statement of net assets and the statement of activities report the governmental activities for the Center, which encompass all of the Center's services, including instruction, support services, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

***Reporting the Center's Most Significant Funds - Fund Financial Statements***

The Center's fund financial statements provide detailed information about the most significant funds - not the Center as a whole. Some funds are required to be established by State law and by bond covenants. However, the Center establishes other funds to help it control and manage money for particular purposes (the Food Service Fund and Capital Projects Fund are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Center use the following accounting approach:

Governmental funds - All of the Center's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Center and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Center's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

**The Center as a Whole**

Recall that the statement of net assets provides the perspective of the Center as a whole. Table 1 provides a summary of the Center's net assets as of June 30, 2008, 2007, and 2006.

TABLE 1

	Governmental Activities		
	2008	2007	2006
<b>Assets</b>			
Current and other assets	\$ 374,203	\$ 347,067	\$ 337,038
Capital assets, net	<u>187,511</u>	<u>208,660</u>	<u>226,707</u>
Total assets	561,714	555,727	563,745
<b>Liabilities</b>			
Current liabilities	127,432	99,106	211,489
<b>Net Assets</b>			
Invested in capital assets, net of related debt	187,511	208,660	226,707
Restricted for Capital Projects	16,336	15,160	-
Unrestricted	<u>230,435</u>	<u>232,801</u>	<u>125,549</u>
Total net assets	<u>\$ 434,282</u>	<u>\$ 456,621</u>	<u>\$ 352,256</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Center's governmental activities is discussed below.

**2008 Discussion**

The Center's net assets were \$434,282 at June 30, 2008. Capital assets totaling \$187,511 at June 30, 2008, compares the original cost, less depreciation of the Center's capital assets to long-term debt used to finance the acquisition of those assets. There was no long-term debt at June 30, 2008, 2007, or 2006. The remaining amounts in net assets at June 30, 2008 consist of \$230,435 that is unrestricted and \$16,336 that is restricted for capital projects.

The \$230,435 in unrestricted net assets of governmental activities at June 30, 2008 represents that accumulated results of past years' operations. The unrestricted net assets balance enables the Center to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

---

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

**2007 Discussion**

The Center's net assets were \$456,621 at June 30, 2007. Capital assets totaling \$208,660 at June 30, 2007, compares the original cost, less depreciation of the Center's capital assets to long-term debt used to finance the acquisition of those assets.

There was no long-term debt at June 30, 2007. The remaining amounts in net assets at June 30, 2007 consist of \$232,801 that is unrestricted and \$15,160 that is restricted for capital projects.

The \$232,801 in unrestricted net assets of governmental activities at June 30, 2007 represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Center to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of operations for the Center as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2008, 2007, and 2006.

TABLE 2

	Governmental Activities		
	2008	2007	2006
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 9,905	\$ 7,428	\$ 6,744
Operating grants	328,352	323,109	327,637
Capital grants	-	15,160	-
General revenue - State foundation allowance	<u>1,510,320</u>	<u>1,526,755</u>	<u>1,491,727</u>
Total revenue	1,848,577	1,872,452	1,826,108
<b>Functions/Program Expenses</b>			
Instruction	1,115,022	1,088,188	1,041,638
Support services	659,423	594,921	564,534
Food services	71,617	60,897	71,874
Interest on long-term debt	1,741	4,164	9,884
Depreciation (unallocated)	<u>23,113</u>	<u>19,917</u>	<u>25,116</u>
Total functions/program expenses	<u>1,870,916</u>	<u>1,768,087</u>	<u>1,713,046</u>
Change in Net Assets	(22,339)	104,365	113,062
Net Assets, Beginning of Year	<u>456,621</u>	<u>352,256</u>	<u>239,194</u>
<b>Net Assets, End of Year</b>	<u>\$ 434,282</u>	<u>\$ 456,621</u>	<u>\$ 352,256</u>



GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

**2008 Discussion**

As reported in the statement of activities, the cost of all of our governmental activities in 2008 was \$1,870,916. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions totaling \$338,257 in 2008. We paid for the remaining public benefit portion of our governmental activities with \$1,510,320 in state foundation allowance in 2008.

The Center experienced a decrease in net assets of \$22,339 in 2008.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Center operating revenue sources, the board of directors and administration must annually evaluate the needs of the Center and balance those needs with state-prescribed available unrestricted resources.

**2007 Discussion**

As reported in the statement of activities, the cost of all of our governmental activities in 2007 was \$1,768,087. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions totaling \$345,697 in 2007. We paid for the remaining public benefit portion of our governmental activities with \$1,526,755 in state foundation allowance in 2007.

The Center experienced an increase in net assets of \$104,365 in 2007.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Center operating revenue sources, the board of directors and administration must annually evaluate the needs of the Center and balance those needs with state-prescribed available unrestricted resources.

**The Center's Funds**

As noted earlier, the Center uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Center is being accountable for the resources the State and others provide to it and may provide more insight into the Center's overall financial health.

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

**2008 Discussion**

As the Center completed 2008, the governmental funds reported a combined fund balance of \$246,771, which is a decrease of \$1,190 from 2007. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$2,366. This change is mainly due to an increase in instruction and support services costs.

The General Fund balance is available to fund costs related to allowable school operating purposes.

In the Special Revenue Funds, the Center operates a food service program, and in the capital projects fund the Center is setting aside funds for major renovations to the Center's school building. The total revenue of the Food Service Fund was \$51,925, with total expenditures of \$71,617, and other financing sources of \$19,692. The ending fund balance was \$-0-. The capital projects fund had local revenue in the amount of \$1,176 and no expenditures. The ending fund balance was \$16,336.

In the Debt Service Fund, the Center records payments of both principal and interest. There were no new borrowings in either 2008 or 2007, and the ending fund balance was \$-0-.

**2007 Discussion**

As the Center completed 2007, the governmental funds reported a combined fund balance of \$247,961, which is an increase of \$122,412 from 2006. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased \$107,252. This change is mainly due to a decrease in capital outlay expenditures.

In the Special Revenue Funds, the Center operates a food service program, and in 2007, created a capital projects fund for major renovations to the Center's school building. The total revenue of the Food Service Fund was \$49,056, with total expenditures of \$60,897, and other financing sources of \$11,841. The ending fund balance was \$-0-. The capital projects fund had gift income in the amount of \$15,160 and no expenditures. The ending fund balance was \$15,160.

**General Fund Budgetary Highlights**

Over the course of the year, the Center revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

---

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

A schedule showing the Center's original budgeted amounts compared with amounts actually paid and received is provided as part of the basic financial statements.

**2008 Discussion**

There were no significant revisions made to the 2007-2008 General Fund original budget. The following items describe variances in budget vs. actual results:

- A decrease in federal revenue sources of \$7,248 related to a reduction in Title I funding and IDEA special education funding.
- An increase in pupil services spending of \$24,176 related to unfavorable budget spending for special education services.
- An increase in school administration spending of \$14,698 related principally to unfavorable to budget expenditures for new copy machine leases and maintenance costs.
- An increase in operation and maintenance spending of \$3,177 relates principally to unfavorable to budget building maintenance and janitorial costs.
- An increase in transfers out to the Food Service Fund of \$4,400 relates to unfavorable to budget lunch expenditures, and favorable to budget local lunch revenues.

**2007 Discussion**

There were no significant revisions made to the 2006-2007 General Fund original budget. The following items describe variances in budget vs. actual results:

- A decrease in local revenue sources of approximately \$4,000 relates to unfavorable to budget Act 18 funding for special education of approximately \$7,000 offset by favorable to budget funding from school activities of approximately \$3,000.
  - An increase in state sources of approximately \$28,000 relates to favorable to budget Headlee special education funding of approximately \$18,000, of which approximately \$9,900 relates to an allocation for fiscal 2006, and favorable to budget state aid of \$10,000.
  - An increase in federal revenue sources of approximately \$6,000 relates to favorable to budget IDEA special education funding.
  - A decrease in instructional spending of approximately \$36,000 relates principally to favorable to budget health care costs of approximately \$20,000, favorable to budget salary expenses of approximately \$5,000, favorable to budget supplies costs of approximately \$5,000, and favorable to budget technology services of approximately \$3,000.
  - An increase in pupil services spending of approximately \$9,000 relates to unfavorable to budget spending for special education services.
  - An increase in business services spending of approximately \$6,600 relates to unfavorable to budget expenditures for marketing services.
  - A decrease in operation and maintenance of approximately \$17,700 relates principally to favorable to budget utilities of approximately \$7,600, and favorable to budget building cleaning costs of approximately \$4,600.
-

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

- A decrease in transfers out to the Food Service Fund of approximately \$13,000 relates to favorable to budget lunch expenditures.

## **Capital Assets and Debt Administration**

### ***Capital Assets***

As of June 30, 2008, the Center had approximately \$188,000 invested in a broad range of capital assets, including leasehold improvements and furnishings and equipment, net of accumulated depreciation.

	2008	2007	2006
Leasehold improvements	\$ 162,356	\$ 174,717	\$ 187,078
Furniture and equipment	25,155	33,943	39,629
	<hr/>	<hr/>	<hr/>
Total capital assets, net	\$ 187,511	\$ 208,660	\$ 226,707
	<hr/>	<hr/>	<hr/>

Additions of approximately \$2,000 in 2008 include network upgrades. Additional information on capital assets can be found in Note 5 to the financial statements.

### ***Debt***

At June 30, 2008 and 2007 the Center had no notes outstanding. Additional information on the Center's debt can be found in Note 9 to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

Our board of directors and administration consider many factors when setting the Center's subsequent fiscal year budget. The two most important factors affecting the budget are our student count and the state foundation amount per pupil. State aid revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 budget was submitted to the Grand Rapids Public Schools in June 2008, based on an estimate of students that will be enrolled in September 2007. Approximately 86 percent of total General Fund revenue is from the foundation allowance. As a result, Center funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will approximate the budgeted amount. Once the final student count and related per pupil funding are validated, state law requires the Center to amend the budget if actual Center resources are not sufficient to fund original appropriations.

---

GRAND RAPIDS CHILD DISCOVERY CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008 and 2007

---

Since the Center's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues.

**Contacting the Center's Financial Management**

This financial report is designed to provide a general overview of the Center's finances for all those with an interest in the Center. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Grand Rapids Child Discovery Center, 640 5<sup>th</sup> Street, N.W., Grand Rapids, Michigan 49504.

Additionally, the Center's budget for fiscal year 2009 is presented on its web site, which is located at [www.grandrapidschilddiscovery.org](http://www.grandrapidschilddiscovery.org).

GRAND RAPIDS CHILD DISCOVERY CENTER  
STATEMENT OF NET ASSETS  
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and investments (Note 3)	\$ 39,379	\$ 34,194
Accounts receivable (Note 4)	334,824	311,555
Prepaid expenses	-	1,318
Capital assets - Net (Note 5)	<u>187,511</u>	<u>208,660</u>
 Total Assets	 561,714	 555,727
 <b>Liabilities</b>		
Accounts payable	18,771	15,818
Accrued payroll and other liabilities	108,661	83,288
Line of credit (Note 8)	-	-
Long-term liabilities - Due within one year (Note 9)	<u>-</u>	<u>-</u>
Total Liabilities	<u>127,432</u>	<u>99,106</u>
 <b>Net Assets</b>		
Invested in capital assets	187,511	208,660
Restricted for Capital Projects	16,336	15,160
Unrestricted	<u>230,435</u>	<u>232,801</u>
 Total Net Assets	 <u><u>\$ 434,282</u></u>	 <u><u>\$ 456,621</u></u>

---

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2008

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
			<u>Operating Grants/ Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Primary government - Governmental activities:					
Instruction	\$ 1,115,022	\$ -	\$ 78,669	\$ -	\$ (1,036,353)
Support services	659,423	-	207,663	-	(451,760)
Food services	71,617	9,905	42,020	-	(19,692)
Interest on long-term debt	1,741	-	-	-	(1,741)
Depreciation and amortization- unallocated	23,113	-	-	-	(23,113)
Total Governmental Activities	<u>\$ 1,870,916</u>	<u>\$ 9,905</u>	<u>\$ 328,352</u>	<u>\$ -</u>	<u>(1,532,659)</u>
General revenues:					
State aid not restricted to specific purposes					<u>1,510,320</u>
<b>Change in Net Assets</b>					<u>(22,339)</u>
<b>Net Assets - Beginning of year</b>					<u>456,621</u>
<b>Net Assets - End of year</b>					<u>\$ 434,282</u>

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
			<u>Operating Grants/ Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Primary government - Governmental activities:					
Instruction	\$ 1,088,188	\$ -	\$ 103,008	\$ 15,160	\$ (970,020)
Support services	594,921	-	178,473	-	(416,448)
Food services	60,897	7,428	41,628	-	(11,841)
Interest on long-term debt	4,164	-	-	-	(4,164)
Depreciation and amortization- unallocated	19,917	-	-	-	(19,917)
Total Governmental Activities	<u>\$ 1,768,087</u>	<u>\$ 7,428</u>	<u>\$ 323,109</u>	<u>\$ 15,160</u>	<u>(1,422,390)</u>
General revenues:					
State aid not restricted to specific purposes					<u>1,526,755</u>
<b>Change in Net Assets</b>					104,365
<b>Net Assets - Beginning of year</b>					<u>352,256</u>
<b>Net Assets - End of year</b>					<u>\$ 456,621</u>

See accompanying notes to financial statements.



GRAND RAPIDS CHILD DISCOVERY CENTER  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2008

---

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and investments (Note 3)	\$ 23,043	\$ 16,336	\$ 39,379
Accounts receivable (Note 4)	334,824	-	334,824
Due from other funds	-	8,332	8,332
Prepaid expenditures	-	-	-
Total assets	<u>\$ 357,867</u>	<u>\$ 24,668</u>	<u>\$ 382,535</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 10,439	\$ 8,332	\$ 18,771
Accrued payroll and other liabilities	108,661	-	108,661
Due to other funds	8,332	-	8,332
Line of credit (Note 8)	-	-	-
Total liabilities	127,432	8,332	135,764
Fund Balances			
Reserved for prepaid expenditures	-	-	-
Unreserved, reported in nonmajor			
Capital Projects Fund	-	16,336	16,336
Unreserved - Undesignated	230,435	-	230,435
Total Fund balances	<u>230,435</u>	<u>16,336</u>	<u>246,771</u>
Total liabilities and fund balances	<u>\$ 357,867</u>	<u>\$ 24,668</u>	<u>\$ 382,535</u>

---

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2007

---

	<b>General</b>	<b>Nonmajor</b>	<b>Total</b>
	<b><u>Fund</u></b>	<b><u>Governmental</u></b>	<b><u>Governmental</u></b>
		<b><u>Funds</u></b>	<b><u>Funds</u></b>
<b>ASSETS</b>			
Cash and investments (Note 3)	\$ 19,034	\$ 15,160	\$ 34,194
Accounts receivable (Note 4)	311,555	-	311,555
Prepaid expenditures	<u>1,318</u>	<u>-</u>	<u>1,318</u>
Total assets	<u><u>\$ 331,907</u></u>	<u><u>\$ 15,160</u></u>	<u><u>\$ 347,067</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 15,818	\$ -	\$ 15,818
Accrued payroll and other liabilities	83,288	-	83,288
Line of credit (Note 8)	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	99,106	-	99,106
 <b>Fund Balances</b>			
Reserved for prepaid expenditures	1,318	-	1,318
Unreserved, reported in nonmajor			
Capital Projects Fund	-	15,160	15,160
Unreserved - Undesignated	<u>231,483</u>	<u>-</u>	<u>231,483</u>
Total Fund balances	<u>232,801</u>	<u>15,160</u>	<u>247,961</u>
Total liabilities and fund balances	<u><u>\$ 331,907</u></u>	<u><u>\$ 15,160</u></u>	<u><u>\$ 347,067</u></u>

---

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF NET ASSETS  
June 30, 2008 and 2007

---

	<u>2008</u>	<u>2007</u>
<b>Fund Balance - Total Governmental Funds</b>	\$ 209,922	\$ 247,961
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:		
Cost of the capital assets	302,335	330,326
Accumulated depreciation	<u>(114,824)</u>	<u>(121,666)</u>
Net investment in capital assets	187,511	208,660
<b>Net Assets - Governmental Activities</b>	<u><u>\$ 397,433</u></u>	<u><u>\$ 456,621</u></u>

---

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended June 30, 2008

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenue</b>			
Local sources	\$ 95,754	\$ 11,081	\$ 106,835
State sources	1,589,485	1,821	1,591,306
Federal sources	110,237	40,199	150,436
Total revenue	1,795,476	53,101	1,848,577
<b>Expenditures</b>			
Current:			
Instruction	1,115,022	-	1,115,022
Support services	659,423	-	659,423
Food service	-	71,617	71,617
Debt service:			
Principal	-	-	-
Interest	1,741	-	1,741
Capital outlay	1,964	-	1,964
Total expenditures	1,778,150	71,617	1,849,767
<b>Excess of Revenue Over (Under)</b>			
Expenditures	17,326	(18,516)	(1,190)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	19,692	19,692
Transfers out	(19,692)	-	(19,692)
Total other financing sources (uses)	(19,692)	19,692	-
<b>Net Change in Fund Balances</b>	(2,366)	1,176	(1,190)
<b>Fund Balances - Beginning of year</b>	232,801	15,160	247,961
<b>Fund Balances - End of year</b>	\$ 230,435	\$ 16,336	\$ 246,771

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended June 30, 2007

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenue</b>			
Local sources	\$ 55,290	\$ 22,588	\$ 77,878
State sources	1,630,083	2,200	1,632,283
Federal sources	<u>122,863</u>	<u>39,428</u>	<u>162,291</u>
Total revenue	1,808,236	64,216	1,872,452
<b>Expenditures</b>			
Current:			
Instruction	1,088,188	-	1,088,188
Support services	594,921	-	594,921
Food service	-	60,897	60,897
Debt service:			
Principal	-	-	-
Interest	4,164	-	4,164
Capital outlay	<u>1,870</u>	<u>-</u>	<u>1,870</u>
Total expenditures	<u>1,689,143</u>	<u>60,897</u>	<u>1,750,040</u>
<b>Excess of Revenue Over (Under)</b>			
Expenditures	119,093	3,319	122,412
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	11,841	11,841
Transfers out	<u>(11,841)</u>	<u>-</u>	<u>(11,841)</u>
Total other financing sources (uses)	<u>(11,841)</u>	<u>11,841</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	107,252	15,160	122,412
<b>Fund Balances - Beginning of year</b>	<u>125,549</u>	<u>-</u>	<u>125,549</u>
<b>Fund Balances - End of year</b>	<u><u>\$ 232,801</u></u>	<u><u>\$ 15,160</u></u>	<u><u>\$ 247,961</u></u>

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (1,190)	\$ 122,412
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(23,113)	(19,917)
Capitalized capital outlay	<u>1,964</u>	<u>1,870</u>
Total	(21,149)	(18,047)
Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	-	-
Proceeds from long-term borrowings are reported as a source of funds in the governmental funds, but not in the statement of activities (where it increases long-term debt)	<u>-</u>	<u>-</u>
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ (22,339)</u>	<u>\$ 104,365</u>

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 50,000	\$ 50,000	\$ 95,754	\$ 45,754
State sources	1,590,075	1,590,075	1,589,485	(590)
Federal sources	<u>117,485</u>	<u>117,485</u>	<u>110,237</u>	<u>(7,248)</u>
Total revenue	1,757,560	1,757,560	1,795,476	37,916
<b>Expenditures</b>				
Current:				
Instruction - Basic programs	1,116,715	1,116,715	1,115,022	(1,693)
Support services:				
Pupil	146,710	146,710	170,886	24,176
General administration	63,335	63,335	63,112	(223)
School administration	200,000	200,000	214,698	14,698
Business services	6,000	6,000	3,550	(2,450)
Operation and maintenance	204,000	204,000	207,177	3,177
Debt service - Interest and other	2,000	2,000	1,741	(259)
Capital outlay	<u>3,000</u>	<u>3,000</u>	<u>1,964</u>	<u>(1,036)</u>
Total Expenditures	1,741,760	1,741,760	1,778,150	36,390
Excess of Revenue Over (Under)				
Expenditures	15,800	15,800	17,326	1,526
<b>Other Financing Uses</b>				
Transfers out	<u>(15,800)</u>	<u>(15,800)</u>	<u>(19,692)</u>	<u>(3,892)</u>
Net Change in Fund Balance	-	-	(2,366)	(2,366)
<b>Fund Balance - Beginning of year</b>	<u>232,801</u>	<u>232,801</u>	<u>232,801</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 232,801</u>	<u>\$ 232,801</u>	<u>\$ 230,435</u>	<u>\$ (2,366)</u>

See accompanying notes to financial statements.

GRAND RAPIDS CHILD DISCOVERY CENTER

BUDGETARY COMPARISON STATEMENT – GENERAL FUND  
Year Ended June 30, 2007

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenue</b>				
Local sources	\$ 59,540	\$ 59,540	\$ 55,290	\$ (4,250)
State sources	1,602,075	1,602,075	1,630,083	28,008
Federal sources	<u>116,800</u>	<u>116,800</u>	<u>122,863</u>	<u>6,063</u>
Total revenue	1,778,415	1,778,415	1,808,236	29,821
<b>Expenditures</b>				
Current:				
Instruction - Basic programs	1,124,500	1,124,500	1,088,188	(36,312)
Support services:				
Pupil	132,890	132,890	141,722	8,832
General administration	62,690	62,690	61,660	(1,030)
School administration	182,595	182,595	180,178	(2,417)
Business services	4,500	4,500	11,072	6,572
Operation and maintenance	218,000	218,000	200,289	(17,711)
Debt service - Interest and other	4,700	4,700	4,164	(536)
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>1,870</u>	<u>(3,130)</u>
Total Expenditures	1,734,875	1,734,875	1,689,143	(45,732)
Excess of Revenue Over (Under) Expenditures	43,540	43,540	119,093	75,553
<b>Other Financing Uses</b>				
Transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(11,841)</u>	<u>13,159</u>
Net Change in Fund Balance	18,540	18,540	107,252	88,712
<b>Fund Balance - Beginning of year</b>	<u>125,549</u>	<u>125,549</u>	<u>125,549</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 144,089</u>	<u>\$ 144,089</u>	<u>\$ 232,801</u>	<u>\$ 88,712</u>

See accompanying notes to financial statements.



GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

The accounting policies of the Grand Rapids Child Discovery Center (the "Center") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Center:

Reporting entity: The Center was formed as a public school academy pursuant to Part 6A of the Michigan Revised School Code of 1976, Act No. 451 of the Public Acts of 1976, as amended, Sections 380.501 to 380.507 of the Michigan Compiled Laws. The Center filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on December 1, 1999.

The Center then entered into a contract starting January 1, 2000 Grand Rapids Public Schools Board of Education to charter the Center. This contract has since been extended through June 30, 2013. The contract requires the Center to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Board of Education is the fiscal agent for the Center and is responsible for overseeing the Center's compliance with the contract and all applicable laws. The Center pays the Board of Education 3 percent of state aid as administrative fees. The total administrative fees for the years ended June 30, 2008 and 2007 were \$45,175 and \$45,803, respectively.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Center. Based on application of the criteria, the Center does not contain component units.

Center-wide and Fund Financial Statements: The Center-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Center-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted state aid. When both restricted and unrestricted resources are available for use, it is the Center's policy to use restricted resources first, then unrestricted resources as they are needed.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Center-wide Financial Statements:* - The Center-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Center-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

*Fund Financial Statements:* - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when a payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Center.

The Center reports the following major governmental fund:

*General Fund:* - The General Fund is the Center's primary operating fund. It accounts for all financial resources of the Center, except those required to be accounted for in another fund.

Additionally, the Center reports the following fund types:

*Special Revenue Fund:* - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Center's Special Revenue Fund is the Food Service Fund.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Debt Service Fund:* - The Debt Service Fund is used to record interest revenue and the payments of interest, principal, and other expenditures on long- term debt.

*Capital Projects Fund:* - The Capital Projects fund is used to account for contributions for the future renovation of the Center, and the expenditure of these resources.

Assets, Liabilities, and Net Assets or Equity

*Cash and Investments:* - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*Receivables and Payables:* - In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

Trade receivables are shown net of an allowance for uncollectible amounts. The Center considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

*Capital Assets:* - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the Center-wide financial statements. Capital assets are defined by the Center as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The center does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Furniture and other equipment	5-10 years
Leasehold improvements	20 years

*Salaries Payable and Accrued Employee Benefits:* - A liability is recorded at June 30 for those amounts owed to teachers and other employees of the Center who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The Center pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

*Long-term Obligations:* – In the Center-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

*Fund Equity:* – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*Comparative Data/Reclassifications:* – Comparative data is included in the Center's financial statements, where applicable. Certain amounts in the 2007 financial information have been reclassified to conform with the 2008 presentation.

*Use of Estimates:* – The process of preparing the basic financial statements in conformity with GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimates amounts.

*State Aid* – For the fiscal years ended June 30, 2008 and 2007, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the years ended June 30, 2008 and 2007, the foundation allowance was based on the average pupil membership counts taken in February and September of 2007 and 2006, respectively.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The Center has no local portion of the foundation allowance. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October – August each fiscal year. The local revenue is recognized as outlined in Note 1 Basis of Accounting. Amounts receivable from the State of Michigan at June 30, 2008 and 2007 relating to state aid were \$274,727 and \$281,954, respectively.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Center also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*Budgetary Information:* - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and Special Revenue Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Center to have its budget in place by July 1. However, the budget for fiscal years 2008 and 2007 were not adopted by the Board until after the commencement of the respective fiscal years. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. There were no significant amendments during 2008 or 2007.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at June 30, 2008 or 2007.

*Excess of Expenditures Over Appropriations in Budgeted Funds:* - During 2008 and 2007, the Center incurred expenditures in excess of the amount appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>June 30, 2008</b>			
General fund:			
Pupil services	\$ 146,710	\$170,886	\$24,176
School administration	200,000	214,698	14,698
Operation and maintenance	204,000	207,177	3,177
Transfers out	15,800	19,692	3,892
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>June 30, 2007</b>			
General fund:			
Pupil services	\$ 132,890	\$141,722	\$8,832
Business services	4,500	11,072	6,572

---

Continued

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes authorize the Center to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The Center is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The Center's deposits are in accordance with statutory authority.

The Center has designated one bank for the deposit of its funds. At June 30, 2008 and 2007, the Center has no investments.

The investment policy adopted by the board has authorized investments as listed in the state statutory authority as listed above.

The Center's cash and investments are subject to several types of risk, which are examined in more detail below:

*Custodial Credit Risk of Bank Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Center's deposits for custodial credit risk. At June 30, 2008 and 2007, the Center had a deposit balance of \$119,185 and \$60,758, respectively, in bank deposits (checking and savings accounts), of which \$19,185 and \$-0- was uninsured and uncollateralized, respectively.

**NOTE 4 - RECEIVABLES**

Receivables as of year end for the Center's individual major fund and the nonmajor funds, in the aggregate, including the applicable allowances for uncollectible accounts (\$-0- at June 30, 2008 and 2007) are as follows:

	<u>2008</u>	<u>2007</u>
Receivables - Intergovernmental	<u>\$ 334,824</u>	<u>\$ 311,555</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2008 and 2007, there was no deferred revenue.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Center's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets being depreciated:				
Leasehold improvements	\$ 230,863	\$ -	\$ -	\$ 230,863
Furniture and equipment	99,463	1,964	(29,955)	71,472
Subtotal	330,326	1,964	(29,955)	302,335
Accumulated depreciation:				
Leasehold improvements	56,146	12,361	-	68,507
Furniture and equipment	65,520	10,752	(29,955)	46,317
Subtotal	121,666	23,113	(29,955)	114,824
Net governmental capital assets	<u>\$ 208,660</u>	<u>\$ (21,149)</u>	<u>\$ -</u>	<u>\$ 187,511</u>

  

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets being depreciated:				
Leasehold improvements	\$ 230,863	\$ -	\$ -	\$ 230,863
Furniture and equipment	97,593	1,870	-	99,463
Subtotal	328,456	1,870	-	330,326
Accumulated depreciation:				
Leasehold improvements	43,785	12,361	-	56,146
Furniture and equipment	57,964	7,556	-	65,520
Subtotal	101,749	19,917	-	121,666
Net governmental capital assets	<u>\$ 226,707</u>	<u>\$ (18,047)</u>	<u>\$ -</u>	<u>\$ 208,660</u>

Depreciation expense was not charged to activities, as the Center considers its assets to impact multiple activities and allocation is not practical.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

**NOTE 6 - INTERFUND BALANCES**

The composition of interfund transfers is as follows:

	Transfers In		
	Debt Service Fund	Food Service Fund	Total
2008 Transfers out - General Fund	<u>\$ -</u>	<u>\$ 19,692</u>	<u>\$ 19,692</u>
2007 Transfers out - General Fund	<u>\$ -</u>	<u>\$ 19,692</u>	<u>\$ 19,692</u>

Transfers to the Food Service Fund from the General Fund are made to subsidize operations.

At June 30, 2008, the General Fund owed the Food Service Fund \$8,332 to cover the remaining expenditures of the fiscal year. The balance is expected to paid within one year.

**NOTE 7 - OPERATING LEASES**

The Center subleases a facility from Aquinas College in which its operation and administration are conducted. Rental expenses for this facility were \$84,000 for the years ended June 30, 2008 and 2007. The future minimum rent payments for this lease are as follows:

Years Ending June 30	Amount
2009	\$ 87,000
2010	87,000
2011	87,000
2012	87,000
2013	87,000
2014-2018	450,000
2019-2020	<u>180,000</u>
Total	<u>\$ 1,065,000</u>

Additionally, in 2006 the Center entered into a sublease agreement with Aquinas College for desktop computers, printers and a server. Lease expenses for this computer equipment were \$17,050 for the years ended June 30, 2008 and 2007. Like payments will be made in fiscal year 2009.

Continued



GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 8 - LINE OF CREDIT**

The Center has an unsecured bank line of credit that allows borrowings up to \$150,000 at the bank's prime interest rate plus ½ percent. Borrowing under this line of credit was \$-0- at June 30, 2008 and 2007. The effective interest rate at June 30, 2008 and 2007 was 5.50 percent and 8.25 percent, respectively.

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2008</u>
Line of Credit	<u>\$ -0-</u>	<u>\$ 353,000</u>	<u>\$(353,000)</u>	<u>\$ -0-</u>

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2007</u>
Line of Credit	<u>\$ 94,000</u>	<u>\$ 594,000</u>	<u>\$(688,000)</u>	<u>\$ -0-</u>

**NOTE 9 - LONG TERM DEBT**

The Center issues notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Notes and installment purchase agreements are also general obligations of the Center. There were no notes outstanding at June 30, 2008 or 2007.

**NOTE 10 - RISK MANAGEMENT**

The Center is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers' compensation), as well as medical benefits provided to employees. The Center has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

The Center was created through collaboration between the Grand Rapids Public Schools Board of Education and Aquinas College (the "College") to introduce the Reggio Emilia approach to early childhood education into the Grand Rapids Public Schools system. At June 30, 2008 and 2007, two of the Center's board members were employees of the College.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 11 - RELATED PARTY TRANSACTIONS (Continued)**

The Center subleases its operating facility from the College and compensates the College for pedagogista services provided by the College. The College provides the Center with support services related to its use of the facility and financial services related to accounts payable, payroll, payroll tax reporting, and general accounting and report preparation services. Rent, utilities, and maintenance of the facility are prorated between the Center and the College based on student enrollments of the Center and the College's child development center. The College's child development center is an infant-through-preschool, Reggio Emilia inspired program that serves the community and provides its School of Education with a high-quality lab school for student teaching and observations.

For the years ended June 30, 2008 and 2007, the Center compensated the College for rent and utilities in the amount of \$140,655 and \$146,096, respectively. Housekeeping services were provided through Aquinas College at a cost of \$25,056 and \$17,495 for the years ended June 30, 2008 and 2007, respectively. Additionally, \$237,274 and \$226,973 was provided to the College in 2008 and 2007, respectively, for pedagogista services, administrative support, and contracted employees.

**NOTE 12 - DEFINED BENEFIT PENSION PLAN**

*Plan Description:* The Center participates in the Michigan Public School Employees' Retirement System (MPERS), a cost-sharing, multiple-employer, statewide, defined benefit, public employee retirement system governed by the State of Michigan that covers all employees of the Center. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, Michigan 48909-7671.

*Funding Policy:* Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008, respectively. Basic plan members make no contributions, but contribute to a Member Investment Plan (MIP) at rates ranging from 3.0 percent to 4.3 percent of gross wages. The Center's contributions to the MPERS plan for the years ended June 30, 2008, 2007 and 2006 were \$98,340, \$110,296, and \$95,982, respectively.

GRAND RAPIDS CHILD DISCOVERY CENTER  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

---

**NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)**

*Post-employment Benefits:* Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the Center's total contribution to the MPSERS plan discussed above.

**NOTE 13 - ECONOMIC DEPENDENCY**

The Center received approximately 91% and 90% of its General Fund Revenue from the Michigan Department of Education during 2008 and 2007, respectively. Due to the significance of this revenue source to the Center, the Center is considered to be economically dependent.

**NOTE 14 - SUBSEQUENT EVENT**

Subsequent to year-end, the Center received a capital grant for playground equipment in the amount of \$32,500, with a required match from the Center of \$7,500.

## **SUPPLEMENTAL INFORMATION**

GRAND RAPIDS CHILD DISCOVERY CENTER  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2008 and 2007

	2008			2007		
	Food Service Fund	Capital Projects Fund	Total	Food Service Fund	Capital Projects Fund	Total
Assets						
Cash and investments	\$ -	\$ 16,336	\$ 16,336	\$ -	\$ 15,160	\$ 15,160
Due from other funds	8,332	-	8,332	-	-	-
Total Assets	<u>\$ 8,332</u>	<u>\$ 16,336</u>	<u>\$ 24,668</u>	<u>\$ -</u>	<u>\$ 15,160</u>	<u>\$ 15,160</u>
Liabilities - Accounts payable	\$ 8,332	\$ -	\$ 8,332	\$ -	\$ -	\$ -
Fund Balance - Unreserved, Undesignated	-	16,336	16,336	-	15,160	15,160
Total Liabilities and Fund Balance	<u>\$ 8,332</u>	<u>\$ 16,336</u>	<u>\$ 24,668</u>	<u>\$ -</u>	<u>\$ 15,160</u>	<u>\$ 15,160</u>

GRAND RAPIDS CHILD DISCOVERY CENTER  
 COMBINING STATEMENT OF REVENUE, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2008

---

	<b>Food Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b>Revenue</b>			
Local sources	\$ 9,905	\$ 1,176	\$ 11,081
State sources	1,821	-	1,821
Federal sources	<u>40,199</u>	<u>-</u>	<u>40,199</u>
Total revenue	51,925	1,176	53,101
<b>Expenditures</b>			
Current - Food services	71,617	-	71,617
Debt service:			
Principal	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>71,617</u>	<u>-</u>	<u>71,617</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(19,692)	1,176	(18,516)
<b>Other Financing Sources</b>			
Transfers in	<u>19,692</u>	<u>-</u>	<u>19,692</u>
<b>Net Change in Fund Balances</b>	-	1,176	1,176
<b>Fund Balances - Beginning of year</b>	<u>-</u>	<u>15,160</u>	<u>15,160</u>
<b>Fund Balances - End of year</b>	<u><u>\$ -</u></u>	<u><u>\$ 16,336</u></u>	<u><u>\$ 16,336</u></u>

---

GRAND RAPIDS CHILD DISCOVERY CENTER  
 COMBINING STATEMENT OF REVENUE, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2007

	<b>Food Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b>Revenue</b>			
Local sources	\$ 7,428	\$ 15,160	\$ 22,588
State sources	2,200	-	2,200
Federal sources	<u>39,428</u>	<u>-</u>	<u>39,428</u>
Total revenue	49,056	15,160	64,216
<b>Expenditures</b>			
Current - Food services	60,897	-	60,897
Debt service:			
Principal	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>60,897</u>	<u>-</u>	<u>60,897</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(11,841)	15,160	3,319
<b>Other Financing Sources</b>			
Transfers in	<u>11,841</u>	<u>-</u>	<u>11,841</u>
<b>Net Change in Fund Balances</b>	-	15,160	15,160
<b>Fund Balances - Beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances - End of year</b>	<u><u>\$ -</u></u>	<u><u>\$ 15,160</u></u>	<u><u>\$ 15,160</u></u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 28, 2008

To the Board of Directors  
Grand Rapids Child Discovery Center  
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Grand Rapids Child Discovery Center*, Grand Rapids, Michigan, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grand Rapids Child Discovery Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Grand Rapids Child Discovery Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grand Rapids Child Discovery Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the finding listed below to be a significant deficiency in internal control over financial reporting.



## **Finding 2008-1 – Segregation of Incompatible Duties**

<b>Criteria:</b>	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Center's assets. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.
<b>Condition:</b>	<p>The Center has several accounting functions that are performed by the same individual and are not subject to documented independent review and approval, which include:</p> <ul style="list-style-type: none"><li>-Reconciliation of the monthly bank statement is not independent of cash receipts and disbursements duties, and the responsibility for general ledger maintenance. Additionally, the bank reconciliation is not subject to independent review and approval.</li><li>-Invoices are not subject to a signed approval by an individual independent of the accounts payable and check-writing functions.</li><li>-Checks are prepared and matched to supporting documentation by the same individual, who is also a check signer and has sole responsibility for general ledger maintenance.</li><li>-General ledger account distribution is determined by the Treasurer and not subject to review.</li><li>-Virtually all accounting duties fall to the Board Treasurer, and a second individual has not been cross-trained in these responsibilities.</li><li>-There is no procedure in place for the review and approval of general journal entries.</li></ul>
<b>Cause:</b>	This condition is caused by the limited size of the finance staff.
<b>Effect:</b>	As a result of this condition, the Center is exposed to increased risk that misstatement or misappropriation may occur and not be detected by management on a timely basis.

## **Finding 2008-1 – Segregation of Incompatible Duties (Continued)**

**Recommendation:** We recommend that the Center review its current internal control processes and determine whether it is cost effective and in the Center's best interest to revise these controls.

**View of  
Responsible  
Officials:**

We agree that there is a lack of segregation of duties in the financial management area. The existing accounting practices have been in place for the past several years without major findings. All of the Center's annual audits have resulted in an unqualified opinion by the Center's independent auditor.

The Board of Directors (Board) will consider this finding at their November 11, 2008 meeting. The Board believes that a mitigating control feature that has been cost effective is providing the Board with the details of the respective month's cash receipts and disbursements as well as the respective month's journal entries during each Board meeting. Also believed to be a mitigating control is providing the Board with a schedule of actual versus budget revenues and expenses starting in February that highlights significant actual to budget variances by detail line item. Additionally, Grand Rapids Public Schools administration has their respective liaison attend each Center Board meeting and receive all Board materials.

With the hiring of the Center's new Principal in June 2008, invoices are now signed, dated, and the respective account or object code noted by the Principal, if he believes the distribution is not obvious to the Treasurer. Salaries and benefits distribution have always been assigned by the Principal, particularly with respect to individuals charged to federal and State of Michigan grants.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We do not consider the significant deficiency described above to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Grand Rapids Child Discovery Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Grand Rapids Child Discovery Center in a separate letter dated October 28, 2008.

The Grand Rapids Child Discovery Center's response to the finding identified in our audit is described above. We did not audit the Grand Rapids Child Discovery Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

---

October 28, 2008

To the Board of Directors of the  
Grand Rapids Child Discovery Center  
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the *Grand Rapids Child Discovery Center* (the "Center") for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Center's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 23, 2008.



## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 28, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Grand Rapids Child Discovery Center* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

# **Grand Rapids Child Discovery Center**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

---

In planning and performing our audit of the financial statements of the Grand Rapids Child Discovery Center (the "Center") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

### **Other Matters**

#### *Accounting Software*

The Center's accounting software is currently set up to allow for deletion or modification of transactions after they have been posted. We understand that the Center has plans to convert to a new software system effective January 1, 2009. We encourage the Center to implement an accounting system with an audit trail and proceed with the conversion as planned.

# **Grand Rapids Child Discovery Center**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

---

### *Internal Controls over Information Technology*

During our audit, we reviewed with management a list of recommended information technology controls. We noted various opportunities to enhance controls over IT as it relates to disaster recovery and formal IT policies and procedures. We recommend that the Center review the suggested controls not currently in place and determine whether it would be cost-beneficial to revise such controls in the future.

### *Adoption of the Annual Budget*

The budget for the year ended June 30, 2008 was not formally adopted by the Board of Directors until September 11, 2008. This is a violation of Public Act 621, which requires the annual budget to be adopted before the commencement of the fiscal year. We noted that the budget for the year ended June 30, 2009 was adopted in accordance with State statute. We encourage the Center to continue this practice in future fiscal years.

### *Food Service Cash Receipts*

Cash receipts are recorded by the Center's administration in a log by student name for payment of meals. Currently, no reconciliation is made between the log, the actual cash deposited in the bank, and the number of meals served. We recommend that the Center perform a periodic reconciliation of these items to determine whether cash deposits are complete.

### *Supporting Documentation*

We selected a sample of 3 cash receipts, 5 employee expense report reimbursements, and 3 non-employee disbursements. Of this sample, the Center was unable to provide adequate supporting documentation for 1 of the disbursements and all 3 receipts. The transactions did not appear to be unreasonable or inappropriate; however, we recommend that the Center strengthen its internal documentation system.

In addition, we reviewed a sample of 5 general journal entries. While we noted no inappropriate activity through these entries, we recommend that management consider implementing a policy for filing journal entries sequentially with supporting documentation attached, in order to better document the business purpose/propriety of each entry.

\* \* \* \* \*